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Vietnam

Market Development Reports

Market for Hides and Skins

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Report Highlights: Vietnam's rapidly expanding footwear industry is importing growing quantities of hides and skins. U.S. exporters should carefully consider this market.

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I. MARKET OVERVIEW

The demand for imports of hides and skins in Vietnam is currently strong – the country imported approximately \$92 million worth of the commodity in 1999 – and is likely to grow steadily over the next five to ten years as demand for leather within the country continues to rise and domestic production remains static. Current demand for hides and skins is largely a function of Vietnam’s burgeoning footwear export industry which has seen rapid growth over the past several years as the sector has developed markets in the European Union, the USA and Japan. Primarily due to the growth of footwear production, in 1999 Vietnam consumed approximately 80 million square feet (sqf) of leather of which some 65-70 million sqf was imported. Although Vietnam’s imports hides and skins at all stages of processing from raw and semi-processed hides and skins to tanned leather, the large majority of Vietnam’s imports are tanned leather which may be immediately used in manufacturing without further processing in the country.

Currently, the largest exporters of hides and skins to Vietnam (generally in the form of finished leather) are Taiwan and Korea, which countries exported approximately \$30 million and \$19 million worth of the commodity to Vietnam in 1999. Other leading exporters of hides and skins to Vietnam include China, Thailand and the US. The value of US exports of hides and skins to Vietnam reached over \$8 million in 1999, an increase of 40% on 1998’s figure.

Despite the significant demand for leather in Vietnam, the country’s leather tanning industry is weak and hindered by outdated equipment and a lack of investment capital. Vietnam’s domestic tanneries are currently unable to produce leather in anything approaching the quantity required by the country’s export producers.

The first obstacle to domestic leather production is the lack of raw materials. Vietnam is without large-scale cattle farms and most of the raw leather purchased from within Vietnam is bought from slaughterhouses and rural households. This translates into shortages of hides and skins meaning Vietnam has to import some of the raw and semi-processed hides and skins used in its tanneries.

The poor quality of domestic hides and skins is another obstacle hindering the development of the tanning sector in Vietnam. The cattle and buffalo hides generally used by Vietnamese leather tanners primarily come from animals which have been used for agricultural purposes or slaughtered for meat. (Although there are plans to harvest and tan more pig and goat leather in Vietnam, to date results are insignificant). Slaughtering is often done by hand, a technique that also reduces the quality of the hides harvested.

Raw materials and quality issues aside, Vietnam’s leather tanners are simply unable to produce anything but a small portion of the growing domestic demand for leather. Although total production capacity of Vietnam’s tanneries is estimated to be greater than 22 million sqf per year, actual production is less than half that amount. As Table 1 below indicates, production of tanned leather in Vietnam is currently less than 11 million square meters per year, or approximately 15% of the 80 million square feet of leather which the country was estimated to have consumed in 1999.

Table 1: Production of Vietnam’s Tanneries
(Unit: million sqf)

Year	Finished leather
1993	6.1
1994	6.7
1995	8.0
1996	8.2
1997	9.7
1998	10.7
1999	10.8

(Source: Vietnam Leather and Footwear Association (VLFA))

While Vietnam produces a variety of leather products including leather handbags (producing an estimated 20 million pieces in 1999), gloves, belts and sporting equipment, the vast majority of the leather consumed in Vietnam is used in the production of footwear. From modest totals in the early 1990s, Vietnam's footwear sector has seen rapid growth placing it among the top five export sectors in the country¹ in terms of revenues generated. (1-While total receipts are high, the net inflow of foreign currency to Vietnam is limited by the fact that Vietnam's manufacturers must purchase much of the materials required for production from abroad).

In 1999, Vietnam produced in the neighborhood of 230 million pairs of shoes and sandals of which over 80% was exported. This resulted in an export turnover of over \$1.3 billion, an increase of 25% against 1998's figure. Estimates are for continued growth in the year 2000 with production targets set at 265 million pairs of shoes and sandals, 30 million leather bags and 15 million sqf of tanned leather.

Vietnam's exporters are eagerly awaiting the implementation of the recently signed bi-lateral trade agreement (BTA) between the US and Vietnam which they believe will offer significant opportunities to export footwear to the US market. Continued growth in Vietnam's footwear production sector is likely translate into even greater demand for imported hides and skins, both finished leather and semi-processed products for tanning in the country.

Most of the hides and skins currently imported into Vietnam have already been tanned and are not processed in the country. Leading exporters of tanned leather to Vietnam include Taiwan, Korea, Hong Kong and the United States. (Indications are that much of the tanned leather exported to Vietnam from Korea and Taiwan is initially imported in raw form from countries such as the US and Australia, tanned in Korea and Taiwan and then re-exported to countries such as Vietnam). In many cases, the import of tanned leather into Vietnam is carried out pursuant to a footwear production contract and involves leather designated and supplied by purchasers of these products. Of the semi-processed leather imported for further tanning in Vietnam, the leading suppliers are Australia, India, Thailand and New Zealand.

Advantages	Disadvantages
The demand for imported leather in Vietnam is set to continue to rise as the country's footwear industry continues its steady growth.	A number of competitor countries, particularly Australia, have long been active in the market and have stable relationships with purchasers.

Domestic production of hides and skins is currently low and not likely to increase in the near to medium term.	US leather is perceived to be expensive in comparison to other countries' leather of similar quality.
Vietnam has yet to develop a large-scale leather tanning industry and currently suffers from outdated equipment and a lack of investment capital.	Much of the import of finished leather into Vietnam is currently according to the specifications of foreign contractors – primarily Korean and Taiwanese – who import product directly from their home countries.
The leather produced in Vietnam is generally of a low quality (due to low quality raw materials inputs) and is considered by export producers as unacceptable.	Vietnamese companies are financially constrained and often have a lack of cash which limits their ability to purchase US products.

II. MARKET SECTOR OPPORTUNITIES AND THREATS

The Vietnamese market for hides and skins can be divided into two sub-sectors: (i) raw and semi-processed hides and skins which will be tanned in the country; and (ii) tanned leather which will not undergo further processing in Vietnam and will be used in the manufacturing of products – primarily footwear – for export. While the latter category is currently significantly larger than the former, proposed investment to upgrade Vietnam's leather tanning sector may help alter the balance in the future.

2.1. Raw and semi-processed hides and skins

Market size, structure and trends

Production of hides and skins in Vietnam is currently very small in scale and shows little sign of significant growth in the near to medium term. While the GVN and VLFA sources offer optimistic estimates for increased production of raw materials in the future, there appear to be few, if any, significant projects underway or in planning that will provide the investment needed to increase Vietnam's herds of cattle and buffalo. Table 2 below provides an indication of past and estimated future production of hides and skins in Vietnam.

Table 2: Hides and skins production in Vietnam: past and future

Type of animal	1997	1998	2005	2010
Yellow Vietnamese cattle	5,800 tons	3,300 tons	2,600 tons	1,100 tons
Mixed breed cattle	5,100 tons	6,500 tons	10,000 tons	14,000 tons
Water buffalo	9,500 tons	9,900 tons	10,200 tons	12,000 tons
Pig	- 0 -	- 0 -	5,000 tons	12,000 tons
Goat	- 0 -	- 0 -	over 50 tons	over 100 tons

(Source: Director of Planning Department of Vietnam Leather and Footwear Company)

As noted above, most of the hides and skins produced in Vietnam are considered of an insufficient quality to be used in the production of products for export. Most of the leather produced in Vietnam from domestic hides and skins is used in the production of products for the Vietnamese market for which the quality standards are relatively low. Vietnam also exports small quantities of its domestically tanned leather to other Asian countries such as Korea, China, Taiwan and Singapore.

The limited domestic production of raw materials means that Vietnamese leather tanning enterprises must import semi-processed leather from abroad. This is necessary in order to provide sufficient raw materials to make up for the lack of domestic hides and skins, as well as to obtain high quality hides and skins which, when tanned, can be sold to export producers. Estimates based on statistics provided by the VLFA are that Vietnam imported approximately 5,500 tons of raw and semi-processed leather in 1999 with Australia being the principal supplier. In addition, Vietnam's tanneries must import most of the chemicals used in the tanning process, as the country has not yet developed a petrochemical industry.

The leather tanned by domestic tanneries from imported hides and skins are, in some instances, of a quality considered acceptable to be used by manufacturers of export footwear. Nonetheless, the amounts of high quality leather produced domestically are currently sufficient to meet only a small fraction of the demand from the country's footwear industry. Further, Vietnam's tanneries are as yet unable to produce high quality leathers such as "full grain" and "nubuck" which are used in the production of high end leather products.

Although there is a surplus of skilled and low cost labor in Vietnam's leather tanning sector, there are a number of problems that must be addressed if production is to be raised. One of the most significant is the lack of proper industrial estates for the tanning of leather on a large scale². (2- *The GVN and the VLFA have mooted the idea of creating industrial zones dedicated to the production of leather, but as yet there is no evidence that the investment capital required to establish such zones is available*). Much of the current leather production in Vietnam is carried out in semi-residential areas and without the benefit of proper wastewater and chemical discharge treatment facilities. Complaints of citizens living near these urban tanneries, many of which are located in HCMC, prevent them from operating at full capacity.

Entry strategy

Vietnamese leather tanneries consulted in the course of the research for this report, universally expressed interest in obtaining further information about US hides and skins which they consider to be of high quality. One constraining factor often cited, however, was the relatively high price of US hides and skins. Vietnam's tanning enterprises are constrained financially and often lack the capital required to purchase US hides and skins in quantities large enough to justify their transport costs.

Instead of seeking to sell raw and semi-processed hides and skins to Vietnamese tanneries, US exporters may find a better market entry strategy is to use the country as a processing center for re-export of finished leather or leather products to third countries. This would allow US exporters to take advantage of the low costs of the skilled labor available in Vietnam – according to industry sources labor generally represents only 2-3% of production costs of tanning leather. Another potential benefit of this arrangement would be the avoidance of the import duties on hides and skins which would otherwise be imposed on products consumed in the domestic market.³ (3-*In general, Vietnam exempts imported raw materials from import duties where those products are processed in Vietnam and re-exported*).

Company profiles

Currently both production capacity and actual production of leather in Vietnam is roughly equally divided between state- and privately owned producers. The past ten years have seen substantial consolidation in the

industry as many smaller scale producers have stopped production. Foreign investment in leather production in Vietnam has been minimal and there is currently only one joint venture (Korean invested) operating in the sector.⁴ (4-One other Korean invested joint venture leather producer was recently closed down due to its unprofitability and the lack of investment on the part of the foreign partner).

2.2. Finished leather

Market size, structure and trends

As noted above, the large majority of finished leather consumed in Vietnam is imported and is used in the production of export footwear. With current domestic demand of nearly 80 million sqf of leather per year and domestic production of leather of a sufficient quality for use in export production minimal, the opportunities for export of finished leather to Vietnam are promising. Expected continued growth in the sector and forecasts of limited expansion of domestic leather production in the near future indicate that the demand for imported leather will continue to grow.

The value of Vietnam's imports of finished leather have risen steadily over the past five years as indicated by Table 3 below. This growing import volume is directly linked to the developments in Vietnam's footwear sector.

Table 3: Vietnam's imports of finished leather

1995	\$21 million
1996	\$38 million
1997	\$54 million
1998	\$84 million
1999	\$82 million
2000 est.	\$102 million

Source: Vietnam Leather and Footwear Association

Vietnam's footwear sector began its strong growth during the years from 1993-95. In 1995, the sector produced 115 million pairs of shoes, with 90% of the products going for export and gained export turnover of \$350 million, with production capacity having risen to 800% of what it had been three years earlier. By 1998, these figures had reached over 210 million pairs of shoes and export turnover of \$1 billion. Estimates are that the sector will produce 250-275 million pairs of shoes in 2000 and create an export turnover \$1.5-1.6 billion.

As presented in Table 4, in 2000, the tanned leather produced in the country is estimated at 15 million sqf requiring about 7,500 tons of raw and semi-processed skin and leather. However, the local raw leather supply is very tight, so the leather tanning industry has to rely on import source (about 75%).

Table 4: Orientation and development goals of the leather-footwear sector from 2000-2010

Product	1998	2000	2005	2010
Footwear	212 million pairs (185 million exported)	265 (225)	410 (351)	640 (561)
Handbags	26 million pieces	31.3 (30)	51.7 (30)	80.7 (77)

	(export 25 million)			
Raw leather	7,375 tons (import 5,900 tons)	7,500 tons (estimated import 5,600 tons)	20,000 tons (estimated import 15,000 tons)	40,000 tons (estimated import 30,000 tons)
Tanned leather	10.75 million sqf	15 million sqf	40 million sqf	80 million sqf
Export turnover	\$1 billion	\$1.65 billion	\$3.1 billion	\$4.7 billion

Source: Vietnam Leather and Footwear Association

While there are no guarantees that Vietnam's footwear sector can maintain the torrid growth pace it has enjoyed over the past 7 years – the first six months of 1998 saw a contraction due to the cancellation of a large number of contracts as a result of the Asian financial crisis – the future prospects for the industry look promising. Most significant in this regard is the recent signing of the BTA between the US and Vietnam. While the US is currently the recipient of only 10% of Vietnam's footwear exports (the EU takes 75%), Vietnam's footwear manufacturers believe the reduction of duties on their products will allow them to obtain a much more substantial share of the world's largest market.

Entry strategy

Despite their recent success, Vietnamese footwear manufacturers– the primary purchasers of leather in Vietnam - remain extremely price sensitive and may put less emphasis on small differences in quality than in other more developed markets. An essential component of a successful entry strategy for the Vietnamese leather market will likely involve in-depth research of the quality requirements of the country's footwear manufacturers and the relevant prices of competitor's products at the equivalent quality levels.

It is also important to realize that in many cases decisions on the purchase of the leather which will be used in export footwear production in Vietnam will be made not by local manufacturers, but by the foreign companies which are placing the orders. Common practice in Vietnam is often for those contracting with Vietnamese footwear manufacturers to designate the source of or to provide the leather which will be used in production. Thus, research to determine who the purchasers of Vietnamese footwear are, and marketing efforts directed at such entities would be advisable.

Company profiles

Foreign direct investment has been integral to the growth of Vietnam's footwear sector. Currently there are 107 domestic shoe manufacturers (primarily state-owned but with some privately held companies), 51 foreign invested companies – both joint venture (most of them with Korean, Taiwanese, Hong Kong and Thailand based companies) and 100% foreign owned as well as thousands of small "cottage" producers. Production in the sector is divided roughly equally between domestic companies and the foreign invested producers.

III. COSTS AND PRICES

The unique nature of the import of hides and skins in Vietnam whereby manufacturers often have their raw materials designated for or provided to them by purchasers makes it particularly difficult to provide representative samples of prices of imported hides and skins in Vietnam. Further, most purchases of hides and skins by Vietnamese companies are concluded with suppliers outside of Vietnam. These factors combined with the limited production of export quality leather within the country means there cannot truly

be said to be a “market” for leather in Vietnam. The following prices of semi-processed cow hides were, however, provided by Vietnamese tanneries and may give some indication of the market price for these products in the country:

Table 5: Prices of imported cow hides in Vietnam

US products	\$2.00-2.20
German products	\$1.90
Australian products	\$1.60-1.70

Source: Leather and footwear producers

IV. MARKET ACCESS

The GVN recognizes the importance of the footwear sector as a source of foreign currency for the country and encourages investment in the sector through tax holidays and reductions. Another incentive offered to export producers is the duty-free import of raw materials used in the production of products for export. Thus, where hides and skins – semi-processed or finished leather – are imported into Vietnam for manufacturing of export products they will be exempted from import duties.

V. KEY CONTACTS AND FURTHER INFORMATION

Shoes and Leather Vietnam 2001

This exhibition to be held in Ho Chi Minh City from July 10-12, 2001 should provide a useful opportunity to make contacts and to introduce American hides and skins to both Vietnamese leather tanning enterprises and footwear manufacturers. Queries concerning the exhibition should be addressed to the organizers:

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